



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2017 Biennium

<b>Bill #</b>	SB0259	<b>Title:</b>	Revising workers' compensation and occupational health and safety assessments
<b>Primary Sponsor:</b>	Tutvedt, Bruce	<b>Status:</b>	As Amended in House Committee

- ☐ Significant Local Gov Impact
 ☐ Needs to be included in HB 2
 ☒ Technical Concerns  
☐ Included in the Executive Budget
 ☐ Significant Long-Term Impacts
 ☐ Dedicated Revenue Form Attached

### FISCAL SUMMARY

	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<b>Expenditures:</b>					
General Fund	\$0	(\$644)	\$4,890	\$8,189	\$10,352
State Special Revenue	\$0	\$0	\$0	\$0	\$0
Other	\$14,350	\$0	\$0	\$0	\$0
<b>Revenue:</b>					
General Fund	\$0	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$1,798,142	\$2,148,453	\$2,352,470	\$2,505,466
Other	(\$14,350)	\$0	\$0	\$0	\$0
<b>Net Impact-General Fund Balance</b>	<u>\$0</u>	<u>\$644</u>	<u>(\$4,890)</u>	<u>(\$8,189)</u>	<u>(\$10,352)</u>

**Description of fiscal impact:** This amendment increases the maximum workers' compensation administrative assessment percentage paid by employers in order to fund the current level of services provided by the Department of Labor & Industry from 3% to 4%. The revenue, which is based on paid losses in the preceding year, is declining and is expected to continue to decline. This legislation also creates a separate safety assessment up to 2% of preceding calendar year paid losses to fund the services provided by the Department of Labor's Safety Bureau, which are currently paid from the administrative assessment.

### FISCAL ANALYSIS

#### Assumptions:

#### **Department of Labor and Industry (DLI)**

1. The Executive Budget presented to the legislature for the 2017 biennium assumes passage and approval of this bill.
2. The current workers' compensation administrative assessment is capped at 3% of paid compensation and medical benefits, less medical benefits over \$200,000 per claim. The administrative assessment currently funds all costs to administer the Workers' Compensation Act and Occupational Safety and Health Acts.
3. The amount of revenue collected from the administrative assessment has decreased 11% from 2009-2013.

4. This legislation would allow an increase to the workers' compensation administrative assessment up to 4% of paid compensation and medical benefits, less medical benefits over \$200,000 per claim and creates a safety assessment to fund the safety functions currently paid out of the workers' compensation administrative assessment.
5. The estimated increase in revenue is as follows. The estimate is based on the cost of current level services, an administrative rate of less than 4%, and a safety rate of less than 1%.
  - a. \$1,798,142 in FY 2016
  - b. \$2,148,453 in FY 2017
  - c. \$2,352,470 in FY 2018
  - d. \$2,505,466 in FY 2019
6. Without this legislation, the workers' compensation administration fund will realize a deficit in each year due to expenditures of current level services being more than revenues.

**Montana State Fund (MSF)**

7. The effective date of the bill is July 1, 2015 which means MSF will start collecting from policyholders, the increased administrative assessment and the new safety assessment on MSF paid losses (payments on claims for injuries occurring on or after July 1, 1990) with new/renewal policies effective July 1, 2015 and forward.
8. DLI will continue to provide MSF the administrative surcharge rate based on the assessment of paid losses reported for the prior year, and will provide the new safety surcharge that will be applied to policyholder premiums effective July 1, 2015.
9. Payments to DLI may increase based on the ability to change the maximum assessment on total compensation benefits paid from 3% and increasing it to a maximum of 4% under section 39-71-201, and allows for the addition of a new safety surcharge.
10. The safety assessment surcharge (New Section, Section 8) will not be applied to the Old Fund benefit payments.
11. The estimated assessment below is based on Old Fund losses reported to DLI for 2014 less medical benefits over \$200,000 per claim, an estimated 6.54% decrease of benefits paid each year following, and DLI's estimated administrative assessment rate. The following expenditures would be paid for the Old Fund assessment.

<b>Fiscal Year</b>	<b>Estimated Paid Losses</b>	<b>Current Assessment 3% (general fund)</b>	<b>DLI Estimated Admin Assessment</b>	<b>Estimated Old Fund Assessment</b>	<b>Difference</b>	<b>Maximum Assessment 4%</b>
2016	3,738,622	\$ 112,159	2.983%	\$ 111,515	\$ (644)	\$ 149,545
2017	3,494,116	\$ 104,823	3.140%	\$ 109,713	\$ 4,890	\$ 139,765
2018	3,265,601	\$ 97,968	3.251%	\$ 106,157	\$ 8,189	\$ 130,624
2019	3,052,031	\$ 91,561	3.339%	\$ 101,913	\$ 10,352	\$ 122,081

12. MSF used projected premium levels through 2019 to apply the projected surcharge rates in order to determine the amount of payment for each year. The increase between what is estimated to be paid under current law compared to the estimated payments with the surcharge increase, as determined by DLI are shown in the fiscal summary as an increase in special revenue funds to DLI.
13. MSF estimates that changes to the policy system, various reports, and applications will result in one-time costs of \$14,350 to MSF in FY 2015.

	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<b><u>Expenditures:</u></b>					
Operating Expenses - MSF	\$14,350	(\$644)	\$4,890	\$8,189	\$10,352
<b>TOTAL Expenditures</b>	<b>\$14,350</b>	<b>(\$644)</b>	<b>\$4,890</b>	<b>\$8,189</b>	<b>\$10,352</b>
<b><u>Funding of Expenditures:</u></b>					
General Fund (01) - MSF	\$0	(\$644)	\$4,890	\$8,189	\$10,352
State Special Revenue (02)	\$0	\$0	\$0	\$0	\$0
Other - MSF	\$14,350	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<b>\$14,350</b>	<b>(\$644)</b>	<b>\$4,890</b>	<b>\$8,189</b>	<b>\$10,352</b>
<b><u>Revenues:</u></b>					
General Fund (01)	\$0	\$0	\$0	\$0	\$0
State Special Revenue (02) - DLI	\$0	\$1,798,142	\$2,148,453	\$2,352,470	\$2,505,466
<b>TOTAL Revenues</b>	<b>\$0</b>	<b>\$1,798,142</b>	<b>\$2,148,453</b>	<b>\$2,352,470</b>	<b>\$2,505,466</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>					
General Fund (01)	\$0	\$644	(\$4,890)	(\$8,189)	(\$10,352)
State Special Revenue (02)	\$0	\$1,798,142	\$2,148,453	\$2,352,470	\$2,505,466
Other	(\$14,350)	\$0	\$0	\$0	\$0

**Technical Notes:****Department of Labor (DLI)**

- Without this legislation, the Workers' Compensation Fund Balance will be reduced. The following figures show the projected reduction in fund balance in each fiscal year.
  - In FY 2016 = (\$1,798,142)
  - In FY 2017 = (\$2,148,453)
  - In FY 2018 = (\$2,352,470)
  - In FY 2019 = (\$2,505,466)
- If this legislation does not pass, the department anticipates that the fund will have a negative fund balance beginning in state fiscal year 2017.

**Montana State Fund (MSF)**

- Section 10 states if the bill is passed and approved on or after May 1, 2015, the department is exempt from the requirement to provide the assessment percentage to MSF by April 30<sup>th</sup> for 2015. The assessments surcharge outlined in section 1 of the bill is put into MSF systems as part of the annual changes for renewal, usually around May 1st. The assessments are all then displayed on required documents that are provided to policies that are new or renewing on or after 7/1/2015. If the assessment percentages are not available to MSF by May 1st, MSF will have already issued documentation to a significant number of policyholders renewing July 1st. There will be additional costs for adjusting MSF systems and mailing revised documentation to affected policyholders. The scope and cost of these changes have not been determined.

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*Sponsor's Initials*\_\_\_\_\_  
*Date*\_\_\_\_\_  
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